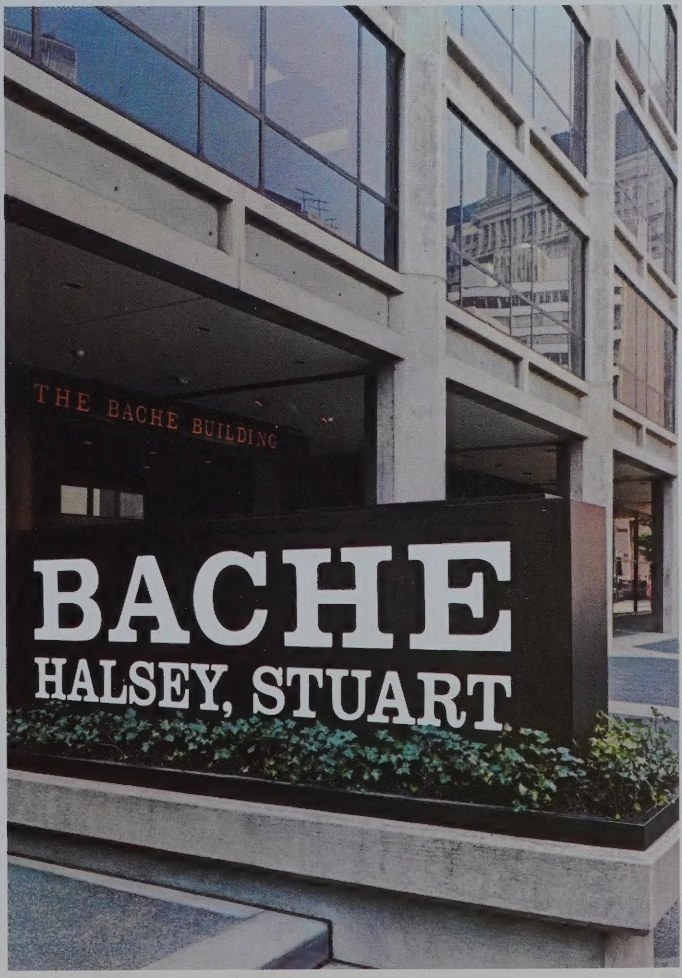
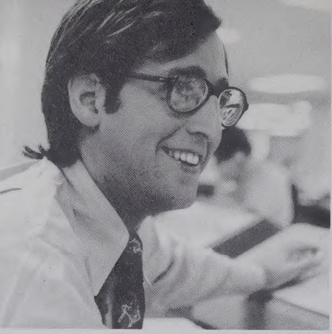
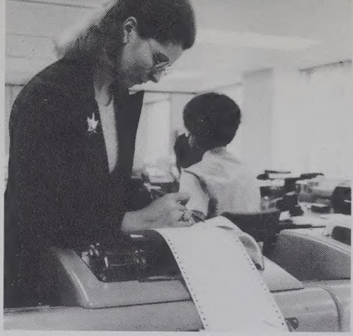
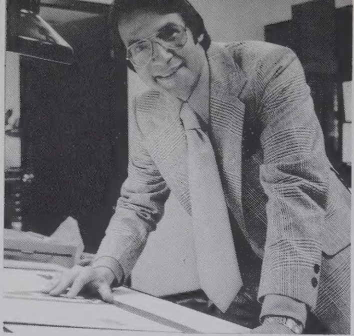
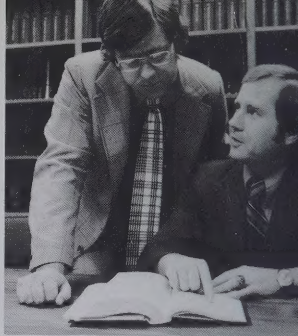
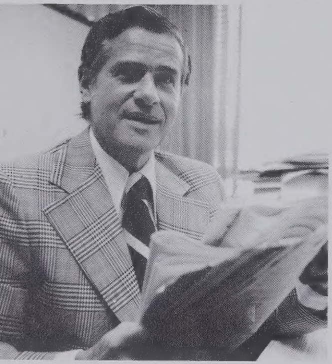
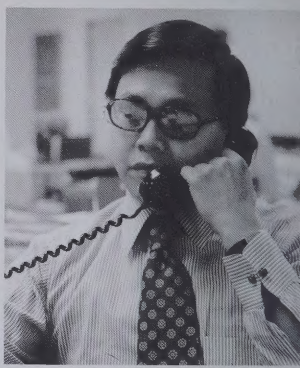
"It is the basic policy of this company that the firm's business, internally and externally, is to be carried out with complete integrity by competent and knowledgeable personnel"



Bache & Co. Incorporated
and Subsidiaries

Annual Report July 31, 1974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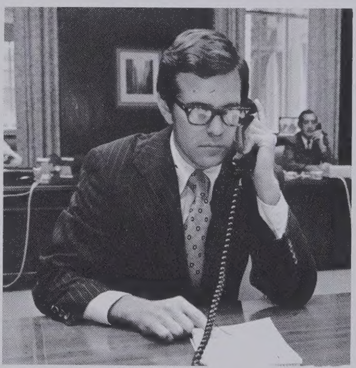






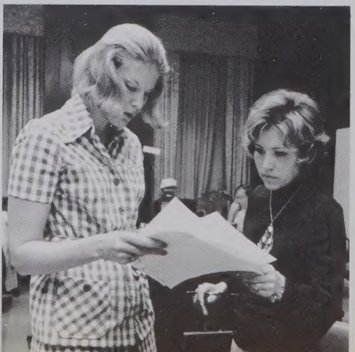

Major Elements of Business Goals and Policies

A Statement from Bache & Co. Incorporated

1. It is the basic policy of this company that the firm's business, internally and externally, is to be carried out with complete integrity by competent and knowledgeable personnel.

2. It is the guiding principle of this company that the interests of its customers and their good will (a business's most important asset) must be carefully protected at all times.

3. The company's major services to its customers shall take these forms:
   a) Brokers in all types of securities (listed, unlisted, stocks, bonds, governments, municipals, foreign, domestic).
   b) Brokers in commodities.
   c) Dealers and traders in securities and commodities.
   d) Financial and investment advisory services.

4. Diversification of products and customer services will be continued within the broad framework of the securities and commodities business, investment banking, finance and other related services.

5. The company operates in the United States, Canada and the major international financial centers overseas.

6. It is the policy of the company to expand its business:
   a) Geographically (nationally and internationally).
   b) By type of activity.

   This is to be accomplished with proper timing and with regard to the company's resources, either by development from within or by suitable acquisitions on the outside. Proper regard is given to the major economic trends in the securities industry presently going in the direction of dealer and principal oriented activities.

7. Research and other back-up services must be emphasized to provide strong capabilities to reach the company's goals.

John E Leslie

John E. Leslie
Chairman of the Board
Chief Executive Officer

Bache & Co. Incorporated and Subsidiaries
Annual Report July 31, 1974

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Subsidiaries

Halsey, Stuart & Co. Inc.
Bache & Co. Asia Pacific Ltd.
Bache & Co. Canada Limited
Bache & Co. Espana S. A.
Bache & Co. (France) S. A.
Bache & Co. Gesellschaft m.b.H.
Bache & Co. GmbH
Bache & Co., (Hong Kong), Limited
Bache & Co. Italy, Inc.
Bache & Co. Lebanon S. A. L.
Bache & Co. (London) Ltd.
Bache & Co. (Pan America) Inc.
Bache Insurance Agency, Incorporated
Bache Insurance of Kentucky Inc.
Bache Commodities S. A.
Banom Corporation
Bachfurn Corporation
Bayrock Advisors, Inc.

Letter To Stockholders

This past fiscal year must be viewed in the light of the environment in which Bache operated. For most of this period, the company faced one of the most difficult economic, political and financial conditions in recent memory. High and unexpectedly stubborn inflation rates, extremely high interest rates and unprecedented energy problems were major causes of concern in an already generally depressed state of the securities industry. Against this somber background, the volume of securities transactions decreased, while the costs of doing business generally increased under inflationary pressure from wages, communications costs, more expensive supplies and higher industry related expenses.

We believe the results, as shown in the accompanying financial statements, indicate significant progress in the face of these extremely difficult conditions. Results for the fiscal year just ended reflect, after tax adjustments as indicated on page 12, net earnings of $257,000 or $.04 a share compared with a loss of $2,450,000 or $.34 a share for the prior fiscal year ended July 31, 1973. These results include the operations of Halsey, Stuart & Co. Inc. from June 18, 1973, the date of the acquisition. Including Halsey, Stuart & Co. Inc. for the entire prior fiscal year, the combined results for the year ended July 31, 1973, reflect a loss of $3,967,000 or $.55 a share.

The character of the industry has changed greatly in recent years. In the last decade our business became more capital intensive and more price competitive, which largely resulted from a drastic change in the makeup of the brokerage customers. Today almost two thirds of the market participation is in the institutional area, whereas not so long ago individual customers represented the bulk of the stock brokerage clientele. Securities firms are increasingly obliged to provide their own capital for many bond and equity transactions in their dealings with large institutional customers. During the past twelve months, the costs of borrowing to carry necessary inventories were extremely high; bond and stock prices fluctuated widely and there existed a great profit and risk exposure. The performance of the securities industry was further substantially affected by the increasing absence of the public from the equity marketplace and the grinding to a near halt of equity underwritings.

In contrast to the decline in equity trading, we witnessed very active and generally rising and broadening commodity markets, significantly increasing our national and international commodity commission revenue. The demand for every type of commodity is rising on a worldwide basis in response to the steadily growing world population and the aspirations of all nations for a higher standard of living.

The conditions of the equity markets resulted in increased attention to investment opportunities in fixed income securities which was reflected in increased business in the Government and Corporate Bond areas.

The economic events of 1973 and 1974 show more clearly than ever how interrelated and interdependent the economies of the world have become. Inflation, the economic plague of the twentieth century, does not know any borders and is in many ways highly contagious. World currency and world food supply problems have become major economic factors affecting our daily lives. Probably the most dangerous economic development of 1973-1974 has been the sharp increase in the cost of oil, which has so heavily intensified global inflation. The quadrupled price of this key commodity has had the most serious repercussions on a worldwide basis. The Western world, including the United States, has so far been rather helpless to cope with this very explosive situation. It will require the utmost wisdom and restraint and the very best thinking of political and economic leaders of the Western world and also of the oil-producing countries to avert tragic consequences and, hopefully, devise solutions to perhaps the most serious economic problem of our century.

It is the conviction of this management that these factors which have so adversely affected the securities industry make it doubly imperative to do the utmost to find approaches to resolve the problems at hand. A well-capitalized, conservatively-managed company such as ours, will have unusual opportunities to take advantage of certain situations and challenges which in good times may not present themselves. In line with this thinking, we are

convinced that under different conditions in this industry, we may not have had the opportunity last year to acquire Halsey, Stuart & Co. Inc., a firm whose reputation, standing and expertise in the investment banking world has significantly added to our activities and rounded out the scope of our operations.

The company continues to watch developments in this industry as they unfold so that we may take advantage of additional opportunities for acquisitions and new relationships which may present themselves. In this connection, plans are proceeding to establish a holding company, to be called Bache Group Inc. This step should permit increased flexibility of our activities and enable the organization to engage in businesses broader than those presently conducted.

It is our firm belief that a healthy securities industry is essential to the proper functioning of our national economy and that this industry is vitally needed to bring together the capital funds of millions of investors to finance the enormous capital requirements of the future. New York Stock Exchange economists foresee a potential $650 billion capital shortfall between now and 1985. They estimate that capital demands are likely to reach a cumulative total of around $4.7 trillion through 1985. These trillions must be raised to build new factories, industries, communications systems, create new jobs and countless new products to preserve and hopefully even improve our standard of living.

To meet these requirements, we are more certain than ever that the brokerage industry and the country require a strong, well-functioning capital distribution system.

Bache is in a very strong and exceptional position within this industry to take advantage of the great challenges and opportunities that lie ahead. To that purpose, we will use our solid capital position and the abilities, know-how and integrity of the dedicated men and women who in reality are Bache.

John E Leslie

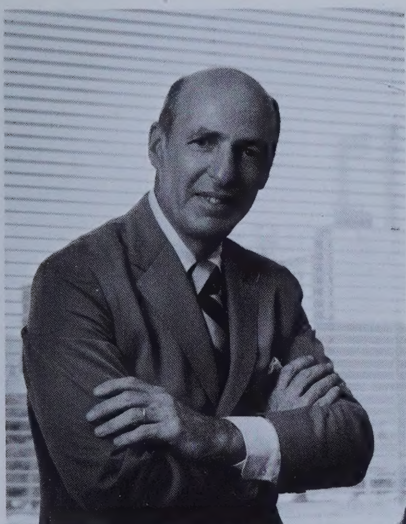
John E. Leslie
Chairman of the Board
Chief Executive Officer

Harry A. Jacobs Jr.

Harry A. Jacobs, Jr.
President

October 1, 1974

Harry A. Jacobs, Jr.
President



Frank A. Digaetano
Vice Chairman of the Board
Chief Financial Officer

John E. Leslie
Chairman of the Board
Chief Executive Officer

The Bache Team

Facing an increasingly complex world, "The Bache Team" was born out of the need to adjust with the changing economic environment. In these challenging times, we believe this concept is a "plus" and of real benefit to the investing public. This "plus" is based on the objective to create improved service—including not only the variety of investment skills we can offer, the increase in locations where our services are available, but also the combined knowledge of the whole Bache organization—whether the customer is an individual, a corporation, a municipality or an institution.

"The Bache Team," with more than 5,500 Bache employees both in the home office and our network of 142 branch offices, became an operating reality in the fiscal year ended July 31, 1974. Bache today is a full-service organization, backing up its people with information and action—all geared to provide improved investment effectiveness.

Direction for this effort involved executive realignments and promotions which broadened and strengthened Bache management skills. They included added executive talent from Halsey, Stuart & Co. Inc., which joined the organization as a wholly-owned subsidiary in June, 1973. We have implemented these improvements at all levels, completing the transition to an on-going corporate team.

Bache employees and officers in meaningful cooperation are involved in day-to-day decision making and sales-support processes. We have brought about increased communication between departments and operating groups. Every effort has been made to place our total resources, such as research, financial planning and specialized product knowledge, behind each branch office and sales representative. In every instance, our objective is quality service of the highest standard for the customer. These services include, among others:

Client security. Bache was among the first major investment firms to provide additional insurance protection for securities clients, $250,000 over and above the Securities Investor Protection Corporation's mandatory $50,000.

An expanding service base. In the past fiscal year, Bache provided new approaches in money management. More of our offices now sell life insurance, and in recent months we have introduced the sale of both fixed and variable annuities in selected areas.

The company's strong capital structure has permitted the Bache Team to keep pace with changing market conditions involving floating rate notes, option trading and commercial paper. We act as brokers and dealers in the full spectrum of government securities and all forms of short-term government paper.

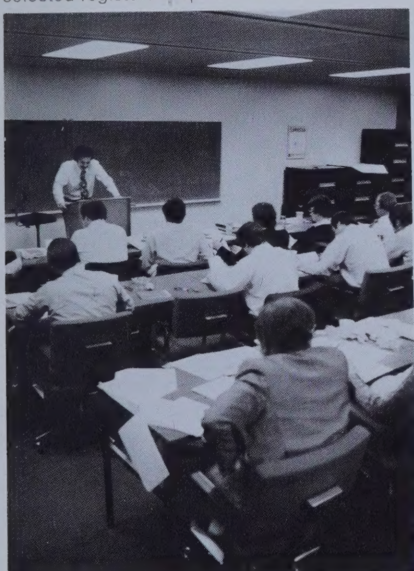
Our new Financial Services Division provides many diverse investment programs including insurance, tax shelters, mutual funds, asset management and payroll deduction plans.

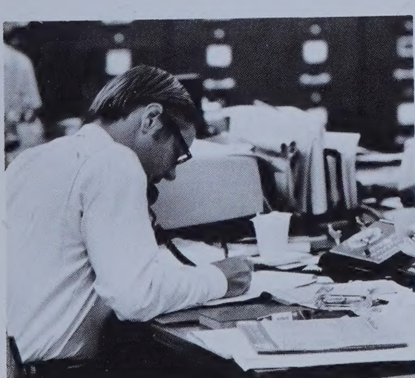
Following the establishment of the Chicago Board Options Exchange, we have substantially increased our participation in the field of options trading among our retail and institutional accounts. We also provide counsel and guidance to our domestic and foreign clients in matters relating to options trading. In anticipation of the establishment of additional options exchanges in the near future, we have positioned ourselves to participate fully in this new and expanding market.

Reflecting national and international requirements, our commodities business showed a significant increase in revenues and we anticipate continued expansion. Related to energy problems and various serious international conditions, we believe the world will face continuing food problems which will be reflected in the commodities markets. With its extensive experience in commodities trading, Bache expects to be increasingly active in these markets.

For the small investor, we introduced TERM TRADE™, a new discount commission plan, offering lower commission rates for short-term trades of $2,000 or less. Term Trade will enable us to compete more effectively for this type of business in anticipation of changes in the fixed-commission structure of the securities industry in 1975. Effective October 1 this year, our 25 per cent discount on term trades was increased to 50 per cent, applicable to stocks, rights and warrants traded on the New York and regional stock exchanges.

In the coming year we expect to train an additional 300 carefully-selected registered representatives.





Bache today is a full-service organization, geared to provide maximum investment effectiveness.

The Bache Team

Currently, we are responding to the interest in gold-oriented investments, and are prepared to help our clients invest in gold bullion when trading begins.

Bache's experienced Metal Department, established in 1946, is fully qualified to trade in precious metals as well as non-ferrous metals. We expect to play an important role in gold trading and related activities.

Retail and institutional network. Since the end of the prior fiscal year, Bache has expanded its extensive branch office network, to include twelve domestic and four important overseas locations in Vienna, Singapore, Dusseldorf and Zurich. We have however, refrained from acquiring new facilities and branches where we felt that such commitments would not be in line with our long-range policies and objectives. On this basis, Bache has selectively increased its combined retail and institutional system to a new record total of 142 offices in the U.S. and abroad and opened more than 110,000 new accounts. Furthermore, we have strengthened many existing offices through relocation to better and improved facilities. Today Bache is represented in most major financial centers throughout the world.

New communications system. To speed the flow of information throughout our worldwide office network, Bache has made arrangements for a new high-speed global data communications system. When completed, it will provide the existing Bache Automated Communications and Order Match System (BACOM) with a five-fold increase in capability, while reducing total data communications costs and improving customer service.

Investment research. We significantly strengthened our investment research capability in our New York Research Center. A competent professional staff and improved research facilities serve retail and institutional clients through our branch office network. In addition, the Bache newswire, with direct connections to our worldwide system, provides prompt distribution of needed research data.

Increased sales effectiveness. Today we have more than 2,000 registered representatives and are committed to expanding and upgrading our sales force. In the coming year we expect to train an additional 300 qualified, carefully-selected candidates. Our training program embraces the wide range of our products and services, providing the tools needed to cope with the complexity and variety of today's investment demands. Our sales efforts have resulted in increasing market penetration by our company in stock exchange transactions and in a growing participation in corporate underwritings and municipal offerings, as reflected in official industry figures.

Sophisticated marketing support, The Marketing and Sales Development Division keeps our sales personnel continuously aware of the varied Bache offerings as they come to market. This division closely coordinates information from the various product areas to enable the branches to use the data for the clients' investment needs.

Steps in other areas. To improve coordination, we have consolidated all of our corporate and municipal financing activities by moving the New York staff of Halsey, Stuart to our New York corporate headquarters at 100 Gold Street —a move that offers maximum efficiency and brings experts in both operations closer together. Similarly, we have merged the institutional sales efforts of Bache and Halsey, Stuart and now service all institutional clients through our Halsey, Stuart offices.

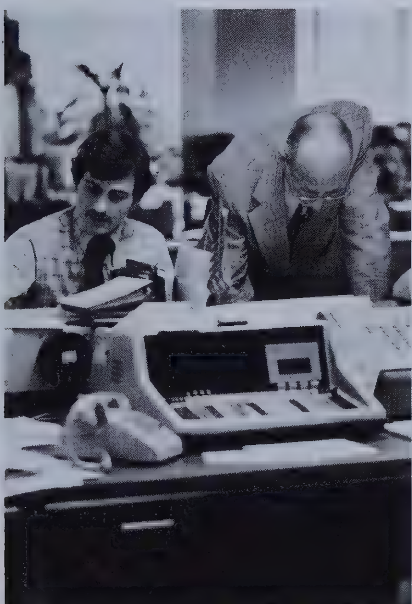
Syndicate departments have been combined for greater effectiveness, and to maximize the distributional strength of both our retail and institutional systems. The combined corporate finance efforts have increased our participation in both corporate and municipal financing.

These efforts are reflected in the fact that, for the fiscal year 1974, our participation as manager or co-manager of corporate offerings which were brought to market exceeded $4.6 billion—while our participation as manager or co-manager of municipal offerings exceeded $4.8 billion.

Furthermore, our Institutional Block Trading Department was expanded to cover key financial centers and is now supported by an intensified institutional research effort.

As Bache prepares to enter its ninety-sixth year of continuous operation in 1975, it is mindful of the problems as well as the opportunities that lie ahead. With a strong team at home and in the field, a dedicated group of men and women, Bache will forge ahead as a recognized leader in the securities industry.

Bache's in-house computer
system permits high-speed
global data communication.



Every effort has been made
to place the team's total
resources, such as research,
financial planning and
specialized product knowledge,
behind each branch office
and sales representative.

Consolidated Statement of Financial Condition

Bache & Co. Incorporated and Subsidiaries

Assets	July 31, 1974	July 31, 1973
Cash subject to immediate withdrawal	$ 9,864,101	$ 12,240,423
Amounts segregated under Commodity Exchange Act and other deposits:		
Cash	21,619,673	20,693,528
U.S. Government securities, at market value	26,273,245	24,184,220
Securities and commodities, at market value (Notes 3 and 6)	66,928,934	93,186,253
Receivable from brokers or dealers (Note 4)	44,169,717	73,479,490
Receivable from customers, less reserve of $4,151,208 in 1974 and $2,496,777 in 1973	349,918,288	409,888,476
Exchange memberships:		
Owned by Company, at cost (market value $2,196,000 in 1974 and $2,306,000 in 1973) (Note 5)	3,663,502	3,667,332
Contributed by officers under subordination agreements, at market value (Note 7)	305,000	322,000
Office equipment and leasehold improvements, at cost less accumulated depreciation and amortization of $16,756,410 in 1974 and $14,806,520 in 1973	14,260,847	12,618,887
Other assets	13,808,888	16,747,147
	$550,812,195	$667,027,756

The accompanying notes are an integral part of this statement.

Liabilities and Stockholders' Equity	**July 31, 1974**	July 31, 1973
Liabilities, exclusive of subordinated liabilities:		
Bank loans (Note 6)	**$124,058,712**	$228,455,594
Drafts payable	**20,361,159**	5,166,534
Payable to brokers or dealers (Note 4)	**71,259,186**	106,738,806
Payable to customers (includes free credit balances totaling approximately $62,000,000 in 1974 and $69,000,000 in 1973)	**168,331,916**	151,626,535
Securities sold but not yet purchased, at market value (Note 3)	**12,799,113**	26,230,914
Dividends and interest payable	**7,282,516**	9,159,510
Other liabilities	**24,986,883**	20,442,349
	429,079,485	547,820,242
Liabilities subordinated to claims of general creditors (Note 7)	**24,305,000**	21,096,000
Stockholders' equity: (Note 8)		
Common stock, 7,301,098 shares issued	**14,602,196**	14,602,196
Additional paid-in capital	**54,273,535**	54,532,150
Retained earnings (Note 9)	**28,904,158**	29,365,865
	97,779,889	98,500,211
Less—Common stock in treasury, at cost	**352,179**	388,697
	97,427,710	98,111,514
	$550,812,195	$667,027,756

Consolidated Statement of Income (Loss)

	Year Ended July 31, 1974	Year Ended July 31, 1973	
Revenues:		Historical	Pro Forma*
Commissions	**$ 94,787,856**	$ 89,738,399	$ 90,111,146
Interest	**41,214,574**	39,276,209	40,919,732
Corporate, municipal, and investment company underwriting	**19,624,782**	23,345,027	27,879,899
Trading profits on securities and commodities	**16,542,575**	6,628,390	8,962,116
Dividends, fees and other	**4,252,120**	2,275,175	2,309,127
	176,421,907	161,263,200	170,182,020
Expenses:			
Employee compensation and benefits	**94,519,437**	87,671,055	93,725,000
Interest	**20,509,046**	23,077,575	25,347,487
Communications	**20,733,557**	17,845,937	18,742,063
Occupancy and equipment	**18,214,823**	15,593,349	16,404,743
Floor brokerage, exchange and clearing fees	**6,975,089**	7,352,851	7,516,784
Sales promotion	**5,719,256**	4,734,061	5,196,724
Other	**11,624,006**	9,742,955	10,385,877
	178,295,214	166,017,783	177,318,678
Loss Before Taxes	**(1,873,307)**	(4,754,583)	(7,136,658)
Income Tax Benefit (including in 1974 the reversal of $1,040,000 of tax reserves no longer required) (Note 13)	**2,130,000**	2,305,000	3,170,000
Net Income (Loss)	**$ 256,693**	$ (2,449,583)	$ (3,966,658)
Average Number of Shares of Common Stock Outstanding**	**7,194,795**	7,259,697	7,259,697
Net Income (Loss) Per Share of Common Stock**	**$.04**	$(.34)	$(.55)

*Pro forma results are calculated as though the acquisition of Halsey, Stuart & Co. Inc. had taken place as of August 1, 1972 (See Note 2). This pro forma statement is not covered by the accompanying Report of Independent Public Accountants.

**Net income (loss) per share of common stock has been computed on the basis of the average number of shares of common stock outstanding during each of the periods. Stock options outstanding have been excluded from the computations as their effect is not dilutive.

The accompanying notes are an integral part of this statement.

Consolidated Statement of Changes in Financial Position

Funds Provided By:	**Year Ended July 31, 1974**	Year Ended July 31, 1973
Net income (loss)	**$ 256,693**	$ (2,449,583)
Amortization and depreciation	**2,862,183**	2,802,064
Provided from operations	**3,118,876**	352,481
Reduction in net receivable from customers	**76,675,569**	186,467,364
Reduction in net securities and commodities owned	**12,825,518**	—
Increases in subordinated liabilities	**3,209,000**	1,902,500
Reduction in cash subject to immediate withdrawal	**2,376,322**	1,620,921
Issuance of common stock under employee stock purchase plan	**560,785**	373,981
Increase in drafts payable	**15,194,625**	—
Other changes, net	**5,626,629**	(2,495,742)
Total funds provided	**$119,587,324**	$188,221,505

Funds Applied To:

Reduction in bank loans	**$104,396,882**	$121,790,569
Increase in amounts segregated under Commodity Exchange Act and other deposits	**3,015,170**	30,375,774
Reduction in net payable to brokers or dealers	**6,169,847**	15,456,039
Increase in net securities and commodities owned	**—**	11,374,565
Reduction in income taxes payable	**—**	5,139,562
Purchase of office equipment and leasehold improvements	**4,504,143**	2,113,408
Payment of cash dividend	**718,400**	1,086,818
Repurchase of common stock	**782,882**	884,770
Total funds applied	**$119,587,324**	$188,221,505

The accompanying notes are an integral part of this statement.

Consolidated Statement of Stockholders' Equity

Bache & Co. Incorporated and Subsidiaries

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
Balances, July 31, 1972	$14,602,196	$54,826,084	$32,902,266	$(171,842)	$102,158,704
Net loss for the year	—	—	(2,449,583)	—	(2,449,583)
Cash dividend on common stock $.15 per share	—	—	(1,086,818)	—	(1,086,818)
Cost of 128,600 shares purchased for treasury	—	—	—	(884,770)	(884,770)
Sale of 74,377 shares to employees under stock purchase plan	—	(293,934)	—	667,915	373,981
Balances, July 31, 1973	14,602,196	54,532,150	29,365,865	(388,697)	98,111,514
Net income for the year	—	—	256,693	—	256,693
Cash dividends on common stock $.10 per share	—	—	(718,400)	—	(718,400)
Cost of 160,500 shares purchased for treasury	—	—	—	(782,882)	(782,882)
Sale of 144,560 shares to employees under stock purchase plan	—	(258,615)	—	819,400	560,785
Balances, July 31, 1974	$14,602,196	$54,273,535	$28,904,158	$(352,179)	$ 97,427,710

The accompanying notes are an integral part of this statement.

1. Summary of Accounting Policies: The consolidated financial statements include the accounts of Bache & Co. Incorporated and all of its subsidiary companies. Such subsidiary companies are located in the United States and in various foreign countries whose currencies are substantially freely convertible into U.S. dollars. Assets and liabilities in foreign currencies are translated into U.S. dollar equivalents at current rates of exchange, except for office equipment and leasehold improvements which are translated at historical rates. Revenue and expense accounts are translated at average rates of exchange for the period except for depreciation and amortization which are translated at historical rates. Gains and losses on translation, the amounts of which are not significant, are recorded in income currently.

Securities and commodities owned are valued at market and unrealized gains and losses are reflected in trading profits. Security positions which are acquired for arbitrage are treated for accounting purposes as exchangeable upon approval by the directors of each company provided the exchange occurs shortly thereafter.

Securities transactions are recorded in the accounts on a settlement date basis which is generally five business days after trade date. Commission income and related expenses are accrued for transactions executed but not settled.

Leasehold improvements are amortized over the lesser of the estimated economic life of the improvement or the remaining term of the lease. Depreciation is provided generally on the sum-of-the-years' digits method over an eight-year life for data processing equipment and a ten-year life for all other equipment.

For comparability, certain 1973 amounts have been reclassified to conform with the presentation for 1974.

2. Acquisition of Halsey, Stuart & Co. Inc.: The Company acquired on June 18, 1973, all of the outstanding capital stock of Halsey, Stuart & Co. Inc., an investment banking firm, at a cost of $9,600,000. In connection with this purchase, the Company obtained a subordinated loan of $5,000,000 from the former parent company of Halsey, Stuart. The book value of the capital stock acquired was $12,100,000 which reflects securities at market value in accordance with generally accepted accounting principles. In the preparation of consolidated financial statements, the difference between cost of the investment and underlying book value is allocated to reduce the value assigned to office equipment and leasehold improvements and certain other assets and to increase the recorded liability for pension cost. This acquisition has been accounted for by the purchase method and results of operations of Halsey, Stuart from the acquisition date are included in the accompanying consolidated statement of income (loss).

3. Securities and Commodities: Securities and commodities positions consist of the following:

	1974	1973
	(In Thousands)	
Owned:		
U.S. Government	$13,124	$37,002
State and municipal	12,310	15,755
Corporate	23,990	39,725
Spot commodities (sold for future delivery)	17,505	704
	$66,929	$93,186
Sold but not yet purchased:		
U.S. Government	$ 1,369	$ 6,822
State and municipal	2,077	1,474
Corporate	9,353	17,935
	$12,799	$26,231

4. Receivable from and Payable to Brokers or Dealers: Amounts receivable from and payable to brokers or dealers include:

	1974	1973
	(In Thousands)	
Securities failed to deliver	$17,695	$ 22,707
Deposited for securities borrowed	19,421	32,284
Other	7,054	18,488
Total receivable	$44,170	$ 73,479
Securities failed to receive	$23,321	$ 27,491
Received for securities loaned	36,500	70,391
Other	11,438	8,857
Total payable	$71,259	$106,739

5. Exchange Memberships: Exchange memberships owned by the Company are carried at cost. In the opinion of management, the decline in market value to a level below cost as of July 31, 1974 does not represent a permanent impairment in the value of such memberships. The cost and related market values of these memberships are as follows:

	1974		1973	
	Cost	Market Value	Cost	Market Value
	(In Thousands)			
Security exchanges	$3,380	$ 951	$3,374	$1,426
Commodity exchanges	284	1,245	293	880
	$3,664	$2,196	$3,667	$2,306

6. Bank Loans: Bank loans represent short-term borrowings made at the rate of interest to brokers in effect from time to time and are payable on demand. Such short-term borrowings are collateralized by securities and commodities owned by the Company having market values of $35,280,000 at July 31, 1974 and

$52,252,000 at July 31, 1973 and by securities owned by customers. The average interest rate for such borrowings at July 31, 1974 was approximately 12%. For the year ended July 31, 1974 the weighted average interest rate was 9.98% based on average monthly loan balances outstanding of $154,726,000 and the highest month-end level of borrowing was $215,273,000.

7. Liabilities Subordinated to Claims of General Creditors: Liabilities subordinated to claims of general creditors consist of the following:

	1974	1973
	(In Thousands)	
8½% Subordinated promissory note payable in installments to August 1, 1977 (The Company is required to maintain average collected balances with the lender equal to 10% of the unpaid principal over the life of the loan)	$15,000	$15,000
9½% Subordinated promissory note payable in installments to July 18, 1978	5,000	5,000
6% Subordinated debentures due November 1, 1973	—	774
Subordinated promissory note with interest at a fluctuating rate equal to 2½% above the bank's base rate, payable in installments to September 30, 1978	4,000	—
Exchange memberships contributed by officers at market value	305	322
	$24,305	$21,096

Subordinated promissory notes are repayable as follows: $5,400,000 in fiscal 1975; $5,600,000 in fiscal 1976 and in fiscal 1977; $6,000,000 in fiscal 1978 and $1,400,000 in fiscal 1979.

The subordination agreements require the Company, among other things, to maintain a minimum level of stockholders' equity and certain net capital and financial ratios, the more restrictive of which require the following:

a) a ratio of aggregate indebtedness to net capital under the rules of the New York Stock Exchange not exceeding 10 to 1.

b) a minimum stockholders' equity of $50,000,000.

c) a ratio of stockholders' equity to subordinated debt of at least 3 to 1.

d) net capital as computed under the rules of the New York Stock Exchange in an amount not less than 35% of the total of stockholders' equity and subordinated debt.

The Company has entered into a Memorandum of Understanding with a bank for the availability of temporary subordinated loans up to $10,000,000 in connection with underwritings for the purpose of providing the Company with "net capital" as defined by New York Stock Exchange rules. Such loans would bear interest at ¾ of 1% above the bank's minimum commercial lending rate for the first 45 days the loan is outstanding and at 2% above such rate for any period the loan is outstanding in excess of 45 days.

Memberships on certain exchanges have been contributed for the Company's use by officers for an annual fee which does not exceed 10% of the market value of the membership. These agreements may be terminated upon six months prior written notice by either the owner or the Company.

8. Capital Stock: Capital stock authorized consists of 3,000,000 shares of preferred, $1 par value, and 10,000,000 shares of common, $2 par value. The voting powers, dividend rates, redemption prices, rights upon liquidation and other preferences of the preferred stock are to be determined by the Board of Directors. No preferred shares have been issued.

There were 84,105 shares of common stock in treasury at July 31, 1974 and 68,165 shares at July 31, 1973.

As of July 31, 1974 the Board of Directors has reserved 331,063 authorized and unissued shares of common stock for issuance under stock option and stock purchase plans as follows:

a) 50,000 shares upon the exercise of outstanding options granted to certain officers in the year ended January 31, 1972, at $11.81, representing fair value on date of grant, aggregating $590,500 and exercisable in installments over various periods to June 24, 1976.

b) 250,000 shares upon the exercise of options which may be granted under the 1971 Employee Stock Option Plan. As of July 31,1974, there were outstanding options to purchase 128,750 shares granted to certain officers at prices, representing fair value on date of grant, ranging from $5.00 to $17.19, aggregating $1,051,787 and exercisable in installments over various periods to January 31, 1979.

c) 31,063 shares for issuance at 85% of fair market value under the 1971 Employee Stock Purchase Plan. As of July 31, 1974, 218,937 treasury shares had been sold to employees under this plan.

Changes in shares under option for the two years ended July 31, 1974 are as follows:

	Number of Shares	Option Price Per Share
Balance July 31, 1972	142,500	$10.33 -$17.19
Granted	110,000	5.06 - 10.13
Canceled	(32,500)	9.13 - 11.81
Balance July 31, 1973	220,000	5.06 - 17.19
Granted	46,000	5.00 - 6.63
Canceled	(87,250)	7.75 - 12.76
Balance July 31, 1974	178,750	$ 5.00 -$17.19

Shares exercisable totaled 57,980 at July 31, 1974 and 62,084 at July 31, 1973.

No amounts have been charged to income in connection with stock option or stock purchase plans.

9. Net Capital Requirements: As a member of the New York Stock Exchange, the Company is subject to the net capital rule adopted and administered by the Exchange. The rule prohibits a member from engaging in securities transactions at a time when its "aggregate indebtedness" exceeds 15 times its "net capital" as those terms are defined by the rule. The Exchange

may also require a member firm to reduce its business if its net capital ratio should exceed 12 to 1 and may prohibit a member firm from expanding its business if the ratio exceeds 10 to 1. In view of this rule, retained earnings may at times be restricted as to payment of dividends. As of July 31, 1974, the Company's net capital ratio was 5.2 to 1 and its net capital was $61,100,000 compared with minimum net capital required of $21,100,000 on the basis of a 15 to 1 ratio.

10. Pension and Incentive Compensation Plans: Retirement benefits based on length of service and annual salary are to be paid to officers who were general partners of the predecessor partnership. These benefits are payable to such officers after retirement or, in the event of death, to the surviving widows at reduced amounts. The Company provides for such benefits currently through charges to income with amortization of prior service benefits over a twenty-five year period. Based on an actuarial review as of February 1, 1974 there were vested benefits in excess of amounts provided of approximately $3,250,000. This plan is not funded.

The Company has non-contributory pension plans covering substantially all of its employees. The Company's policy is to provide for estimated annual cost with amortization of prior service cost over a thirty-year period and to fund pension cost currently. Vested benefits, based on an actuarial review as of February 1, 1974, exceed the market value of pension fund assets and balance sheet accruals as of July 31, 1974 by approximately $2,900,000.

The amounts charged to income for these plans for the years ended July 31, 1974 and July 31, 1973 were $1,597,454 and $1,261,419 respectively.

The Company has in existence a Management Incentive Compensation Plan, adopted during fiscal 1973, which provides for bonus payments aggregating 15% of earnings (before income taxes) over $10,000,000 and up to $30,000,000 and 7.5% of such earnings over $30,000,000 and up to $40,000,000.

11. Commitments: The Company leases office space, communications and data processing equipment under noncancelable lease agreements expiring at various dates through fiscal 1995. Occupancy leases are subject to escalation or reduction based on certain costs incurred by the landlord. The Company has no significant financing leases.

Minimum rentals under noncancelable leases, reduced by sublease income of approximately $358,000 per year through 1980, are:

Years Ending July 31	Occupancy	Equipment (In Thousands)	Total
1975	$ 8,176	$ 1,015	$ 9,191
1976	7,836	1,014	8,850
1977	7,476	1,008	8,484
1978	7,045	1,003	8,048
1979	6,335	1,000	7,335
1980-1984 Inclusive	21,687	1,331	23,018
1985-1989 Inclusive	15,660	—	15,660
1990-1994 Inclusive	15,660	—	15,660
Balance of leases	1,305	—	1,305

Total rent expense under both cancelable and noncancelable lease agreements for the years ended July 31, 1974 and July 31, 1973 was $17,403,000 and $15,054,000 respectively.

The settlement of transactions relating to underwriting commitments as of July 31, 1974 had no material effect on the financial position of the Company or the results of its operations.

12. Contingent Liabilities: The Company has been named as a defendant in numerous civil actions arising out of its activities as a broker and dealer in securities and commodities, as an investment banker and by reason of its membership on various securities and commodities exchanges. Some of the actions purport to be brought on behalf of various classes of claimants and some of them seek damages of material or indeterminate amounts. In the opinion of management, these actions will not result in any material adverse effect on the financial position of the Company.

13. Income Taxes: Income taxes provided for the years ended July 31, 1974 and 1973 are as follows:

	1974	1973
	(In Thousands)	
Current tax benefit (expense)		
Federal	$ 2,898	$ 2,517
State and local	(112)	(191)
Foreign	(803)	(224)
Deferred tax benefit	147	203
	$ 2,130	$ 2,305

Deferred tax benefits relate to provisions for deferred compensation and former partners' retirement benefits which, for tax purposes, are not deductible until paid.

Following is a reconciliation of the current year's tax benefit with the amount computed by applying the Federal statutory rate (48%) to loss before taxes:

	Amount (In Thousands)	% of Pretax Income
Tax benefit computed at statutory rate	$ 899	48.0%
Increase (decrease) resulting from:		
Reversal of tax reserves no longer required	1,040	55.5
Municipal bond net interest income which is exempt from Federal income taxes	178	9.5
Corporate dividends received deductions	105	5.6
Other, net	(92)	(4.9)
	$ 2,130	113.7%

Federal income tax returns for the year ended January 31, 1972, and subsequent years are subject to review by the Internal Revenue Service.

	Year Ended July 31		Year Ended January 31							
	1974	1973	1973	1972	1971	1970	1969	1968	1967	1966
Operations					(In Millions of Dollars)					
Revenues	176.4	161.3	180.0	180.0	137.7	147.5	181.2	149.3	113.8	93.8
Income (Loss) Before Taxes	(1.9)	(4.7)	15.6	26.3	(6.4)	(8.3)	20.8	21.8	14.3	12.7
Income Tax Expense (Benefit)	(2.1)	(2.3)	8.3	14.0	(4.0)	(3.6)	11.4	11.4	7.3	6.3
Net Income (Loss)	.2	(2.4)	7.3	12.3	(2.4)	(4.7)	9.4	10.4	7.0	6.4
Financial Position										
Total Assets	550.8	667.0	762.1	633.1	517.9	519.1	733.1	657.4	426.0	404.4
Subordinated Debt	24.3	21.1	19.3	30.2	38.4	43.3	42.9	30.5	28.6	29.3
Stockholders' Equity	97.4	98.1	104.2	97.8	49.0	52.0	47.4	37.4	21.5	18.9

Report of Independent Public Accountants

To the Stockholders and Board of Directors
of Bache & Co. Incorporated:

We have examined the consolidated statement of financial condition of Bache & Co. Incorporated (a Delaware corporation) and subsidiaries as of July 31, 1974 and July 31, 1973, and the related consolidated historical statements of income (loss), stockholders' equity and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Bache & Co. Incorporated and subsidiaries as of July 31, 1974 and July 31, 1973, and the results of their operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

New York, N. Y.
September 18, 1974

Arthur Andersen & Co.

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Beirut

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Madrid

Switzerland
Geneva
Lugano
Zurich

( ) Number of offices
†Sales offices
*Commodities only

Exchange Memberships & Associations

American Stock Exchange, Inc.
Amsterdam Cocoa Terminal Market
Boston Stock Exchange
Canadian Stock Exchange
Chicago Board of Trade
Chicago Board of Trade Clearing Corporation
Chicago Board Options Exchange
Chicago Board Options Exchange Clearing Corporation
Chicago Mercantile Exchange
Coffee Terminal Market Association of London
Coffee Trade Federation of London
Commodity Clearing Corporation
Commodity Exchange, Inc.
Dallas Cotton Exchange
Detroit Stock Exchange
Grain & Feed Trade Association of London
Honolulu Stock Exchange
International Commercial Clearing Association
International Commercial Exchange
International Commodities Clearing House Limited
International Monetary Market
Investment Dealers' Association of Canada
Kansas City Board of Trade
Liverpool Cotton Association Ltd.
Liverpool Cotton Futures Market Limited
London Cocoa Terminal Market Association
London Commodity Exchange Co. Ltd.
London Metal Exchange
London Vegetable Oil Terminal Market Association
London Wool Terminal Market Association
Midwest Stock Exchange
Minneapolis Grain Exchange
Montreal Stock Exchange
National Association of Securities Dealers, Inc.
National Clearing Corporation
National Stock Exchange
New Orleans Cotton Exchange
New York Cocoa Exchange
New York Coffee & Sugar Exchange
New York Cotton Exchange
New York Mercantile Exchange
New York Stock Exchange, Inc.
Pacific Stock Exchange
Pacific Commodities Exchange Inc.
Paris Bourse de Commerce
PBW Stock Exchange Inc.
Rubber Trade Association of London
Stock Clearing Corp.
Sydney Greasy Wool Futures Exchange, Ltd.
Toronto Stock Exchange
United Terminal Sugar Market Association
Winnipeg Commodity Exchange

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President

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Vice Chairman of the Board and Chief Financial Officer

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Senior Vice President

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Sam H. Sampliner
Director Emeritus

George Weiss
Director Emeritus

*Member Executive Committee

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New York, N.Y. 10015

Security Pacific National Bank
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Terminal Annex
Los Angeles, California 90014

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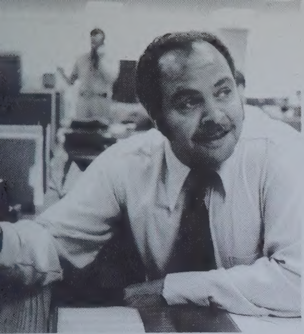
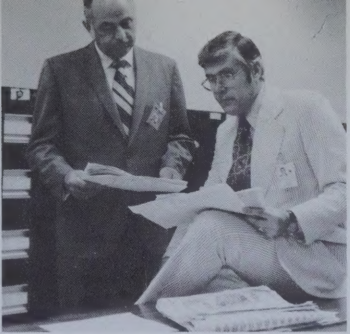
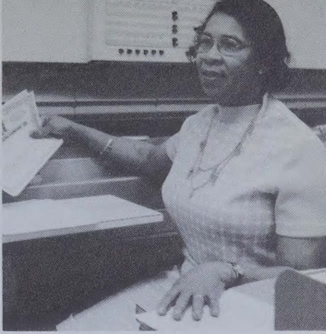
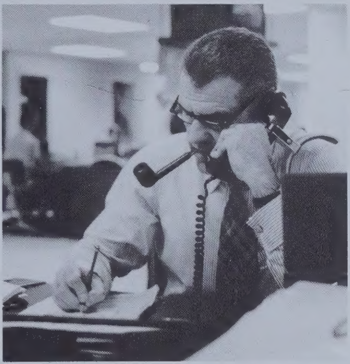
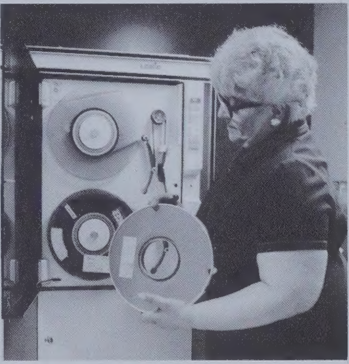
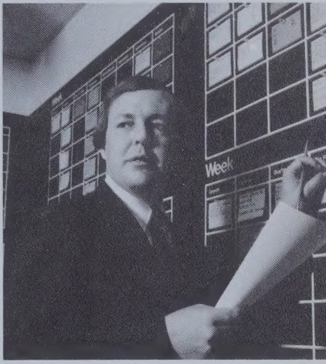
New York, N.Y. 10015

Bank of America National Trust and Savings Association
111 West 7th Street
Los Angeles, California 90014

Annual Report July 31, 1974
This annual report contains certain information that will be included in the 10-K annual report to be filed with the Securities & Exchange Commission. Requests for a copy of the 10-K should be addressed to The Secretary, Bache & Co. Incorporated, Bache Plaza, 100 Gold Street, N.Y., N.Y. 10038.

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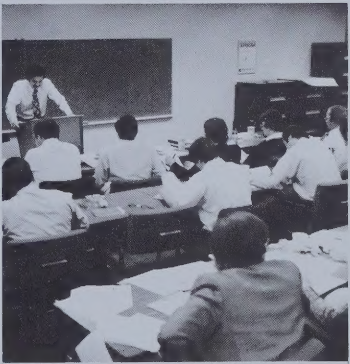
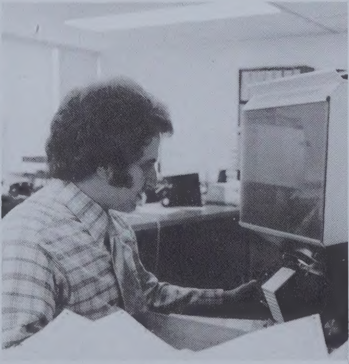
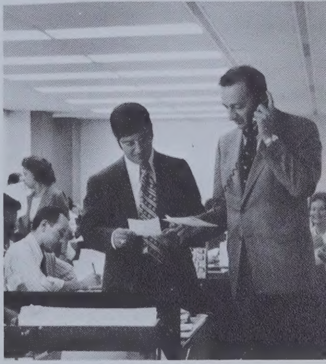
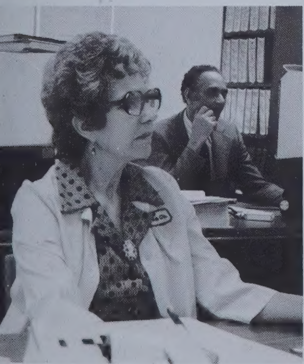
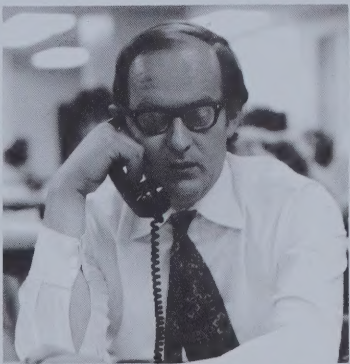
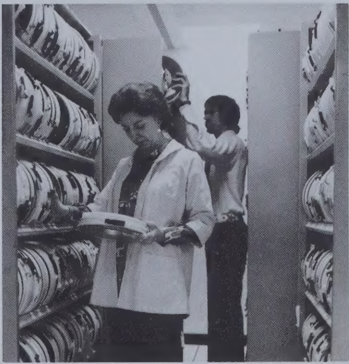
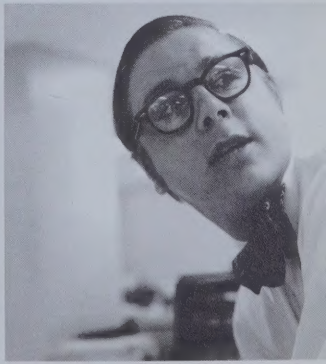

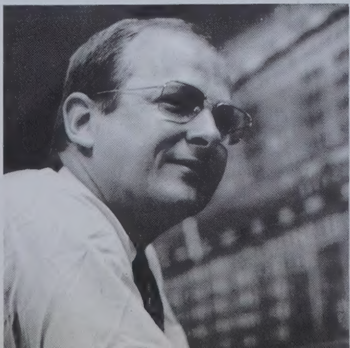

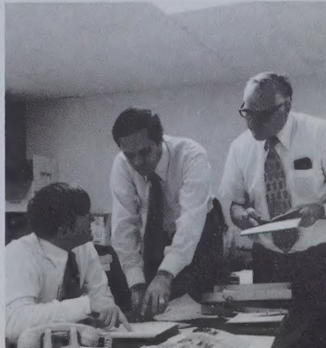

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